

EXECUTIVE SECRETARIAT

Routing Slip

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1	DCI				
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15	D/OEA				
16	C/PAD/OEA				
17	SA/IA				
18	AO/DCI				
19	C/IPD/OIS				
20	NIO/ECON		✓		
21	OGI/DDI		✓		
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SUSPENSE _____ Date _____

Remarks:

Executive Secretary

2/25/82

Date

MINUTES
CABINET COUNCIL ON ECONOMIC AFFAIRS

February 11, 1982
8:45 a.m.
Roosevelt Room

Attendees: The Vice President, Messrs. Regan, Baldrige, Donovan, Porter, Lyng, Jordan, Hormats, Leland, Mehle, Gray, Cicconi, Dederick, Bailey, Borsting, Freierson, Garrett, Hopkins, Hudson, Stanley, Bledsoe, Cribb, and Ms. McLaughlin.

1. Report of the Working Group on LDC Financial Problems

The Council reviewed two papers from the Working Group on LDC Financial Problems on "Debt Problems of LDCs and East European Countries" and "U.S. Debt Policy — The Role of Comparable Treatment."

Mr. Leland reported that the Working Group was examining both LDC and East European debt; noted that LDC debt had grown enormously in recent years and that it was concentrated in a few countries; and observed that there was growing concern about the proliferation of government guaranteed credit programs.

He also discussed the general misunderstanding of the Commodity Credit Corporation guarantees — they only cover at most the first six percent of interest payments. Thus, the lending institutions bear a portion of the risk. He also reviewed new credits for the U.S.S.R. from French government-controlled banks.

He also reviewed several issues that will require the Cabinet Council's attention in the coming months including:

1. The preferential treatment enjoyed by countries who do not participate in debt reschedulings;
2. The roles of international institutions in debt reschedulings;
3. The relationship between the U.S. government and U.S. banks with regard to loans to financially troubled LDCs; and
4. The phenomenon of private banks "pulling back" from loans to LDCs experiencing financial difficulties.

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Mr. Leland noted several difficulties associated with current Eastern European debt: the Romanian rescheduling request which the U.S. government has not agreed to; the problems the Yugoslavs are having in financing their debt; and the question of who possesses more leverage, the creditor or the debtor.

Mr. Hormats emphasized the need to distinguish between individual countries and the need to be sensitive to the confluence of political and economic interests; hence, the value in a case-by-case approach to addressing specific problems.

He also reviewed the French and Swedish financing of the Soviet pipeline with low interest loans roughly half the prevailing domestic rate, and recent Soviet corn purchases.

The Council discussed the policy guidelines outlined in the working group paper on comparable treatment.

Decision

The Cabinet Council approved adopting the following four policy guidelines:

1. Comparable treatment between private and official creditors should continue as an important element of U.S. policy on extending debt relief to foreign countries.
2. U.S. Government policy should aim toward "comparable" but not necessarily "identical" treatment for official and private creditors. In specific cases, the objectives and constraints for official and private creditors may properly differ. The term "comparable treatment" allows for needed flexibility in applying U.S. policy.
3. Comparable treatment does not necessarily require that commercial banks provide relief on interest payments when governments do so. The U.S. Government policy against involvement in the commercial judgments of private banks extends to debt relief decisions.
4. The U.S. Government recognizes the necessity, from time to time, of innovative approaches by official creditors for dealing with "prolonged debt crises." Comparable treatment may pose difficulties for innovations in these cases but it should remain as an objective.

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2. Report of the Working Group on the Commodity Futures Trading Commission

The Cabinet Council reviewed a paper on recommendations of the Working Group on Reauthorization of the Commodity Futures Trading Commission (CFTC).

Mr. Mehle reported on the Working Group's recommendations with respect to reauthorization, jurisdiction, emergency powers to suspend trading, authority for setting margin requirements, user fees, and the ban on trading in agricultural options.

The Council's discussion focused on the alternative of recommending permanent reauthorization for the CFTC, the alternative of replacing the multi-member commission with a single commissioner, the true nature of margins in commodities trading (a downpayment on a security which acts to protect the broker), the Federal Reserve Board's interest in asserting authority over setting margins, the right of the CFTC to set margins in an emergency, and the problems of policing trading in agricultural options if the present ban were lifted.

Decisions

The Cabinet Council approved supporting the reauthorization of the Commodity Futures Trading Commission. The Council requested the Working Group to consider the alternative of a permanent reauthorization and the alternative of replacing the multi-member commission with a single commissioner and to prepare an options paper outlining the advantages and disadvantages associated with these alternatives.

The Cabinet Council approved supporting a jurisdictional resolution between the Securities and Exchange Commission (SEC) and the CFTC based on the agencies' traditional roles — SEC regulation of securities and securities exchanges and CFTC regulation of futures and commodities markets. The SEC will regulate options on securities and certificates of deposit and the CFTC will regulate futures contracts on exempted securities and on options on any such futures contracts. The SEC will also regulate foreign currency options traded on national securities exchanges, while the CFTC will have jurisdiction to regulate such options traded in the commodities market.

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The Cabinet Council approved supporting maintaining in the CFTC reauthorization bill the CFTC's emergency powers "to maintain or restore orderly trading."

The Cabinet Council approved supporting maintaining in the CFTC reauthorization bill authority for the setting of margins with the exchanges. The Council requested Mr. Mehle to prepare a letter to Chairman Volcker of the Federal Reserve Board on the Council's position on the authority for setting margins.

The Council requested the Working Group to further review the issue of user fees, in particular the relationship of the administration's recommended user fees for CFTC activities and user fees for the National Futures Association, a self-regulatory body.

The Council approved establishing a new Working Group on Agricultural Commodity Options, chaired by the Department of Agriculture, to consider the issue of repealing the ban since 1936 on trading in agricultural options.

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MINUTES
CABINET COUNCIL ON ECONOMIC AFFAIRS

February 11, 1982
11:00 a.m.
The Cabinet Room

Attendees: The President, the Vice President, Messrs. Regan, Smith, Baldrige, Donovan, Schweiker, Pierce, Lewis, Meese, Stockman, Brock, Weidenbaum, Anderson, Carlucci, Lyng, Hodel, Porter, Darman, Duberstein, Fuller, Williamson, Jenkins, Cicconi, Gray, Cribb, Trent, and Angrisani.

1. Employment and Training Policy

The Cabinet Council reviewed a paper on Employment and Training Policy outlining the major issues and recommendations of the Cabinet Council concerning the principal elements of the administration's employment and training program.

Secretary Donovan's presentation focused on the Comprehensive Employment Training Act (CETA) funding history, the demographic groups CETA programs have concentrated on, the form of the delivery system (480 prime sponsors, 55,000 sub-contractors), the types of jobs and training, and the results of CETA (\$53 billion spent over seven years, approximately three million participants served annually, only 30-40 percent placed in jobs with less than half of these in the private sector, little private sector involvement, a minimal impact on earnings capacity, significant fraud and waste, political patronage at the local level, and heavy federal regulation and intervention).

He also outlined the administration's proposal: a \$2.4 billion program with a \$1.8 billion block grant, \$200 million for Indians, migrants, and older workers, and \$400 million for the Jobs Corps. The program will serve approximately one million people annually with eligibility limited to disadvantaged youth and AFDC recipients. The major objectives of the program are to train individuals for private sector jobs, to reduce welfare potential and dependency, to direct training in skills shortage occupations, and, consistent with the New Federalism, to give states responsibility for training, increase local private sector control, and reduce the federal role to financial and performance oversight.

Secretary Donovan also reviewed the proposed program's operating characteristics: block grants to states with a manda-

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tory pass-through to local government political jurisdictions with a population of 500,000 or more; an emphasis on the role of the private sector, an emphasis on skill shortage occupations and on performance based funding; and an emphasis on training and job placement (no stipends for wages or allowances, no public service jobs, no Summer jobs program).

The discussion focused on the legislative outlook, the situation of displaced workers, the name for the new program, whether states would have the flexibility for providing stipends if they wished to, and the Cabinet Council's specific recommendations regarding the principal structural features and reauthorizing the targeted jobs tax credit.

The President indicated that he would take the Cabinet Council's recommendations under advisement and would make his decisions shortly.

2. Federal Property Review Program

The Cabinet Council reviewed a paper on the Federal Property Review Program. Mr. Trent's presentation focused on the basic goals of the program (reviewing federal real property holdings, improving property management, expediting the sale of unneeded property, and using the sales proceeds to reduce the national debt), the percent of land in various states owned by the U.S. Federal Government (744.1 million acres or 32.7 percent of the total U.S. land mass), and the distribution of federally owned land by agency (Interior 522 million acres, Agriculture 187 million acres, the Department of Defense 30.3 million acres, with other agencies holding 1.5 million acres or less).

He also reviewed the three principal recommendations outlined in the paper: (1) issuing an executive order establishing the presidential property review board to oversee the program, (2) proposing legislation to require the use of the proceeds for the sales of federal property to reduce the national debt, and (3) reviewing current laws pertaining to public lands and to develop legislative proposals to expedite the sales of unneeded lands.

The discussion focused on the projected level of sales in FY 1983 and FY 1984-86 estimated in the budget, the distribution of lands between the Department of the Interior and the Department of Agriculture, whether the Working Group had undertaken a survey of vacant federal buildings, and the procedures under current law and regulation for disposing of federal properties.

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The President indicated that he would take the recommendations under advisement and would make his decisions shortly.

3. Conditions in the Housing Industry

The Council agreed to defer consideration of conditions in the housing industry until there was adequate time for a full discussion.

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